



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

OFFICE OF FEDERAL  
PROCUREMENT POLICY

October 18, 1976

CIRCULAR NO. A-76  
Revised  
Transmittal Memorandum No. 2

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Policies for Acquiring Commercial or Industrial  
Products and Services for Government Use

1. Purpose. This Transmittal Memorandum provides guidance and specific cost factors to be used when agencies prepare a cost analysis under OMB Circular No. A-76.

2. Background. OMB Circular A-76 expresses the Government's general policy of relying upon the private enterprise system to supply its needs for products and services, in preference to engaging in commercial or industrial activity. This policy reflects the fundamental concept that the Government should generally perform only those functions which are governmental in nature and should utilize the competitive incentives of the private enterprise system to provide the products and services which are necessary to support governmental functions. Those commercial or industrial activities which the Government performs directly for itself are not inherently governmental functions, but rather are exceptions to the fundamental concept, and their performance by Government personnel must be justified as being in the National interest.

3. Supplemental Guidance. Circular A-76 sets forth specific circumstances under which it may be in the National interest for the Government to provide directly some products and services for its own use. One of these circumstances permits justification of Government commercial or industrial activity if a detailed comparative cost analysis demonstrates that Government performance would result in sufficient savings to justify involvement in such activity. However, the Circular does not require that a cost study be made in every case to support a decision in compliance with the policy preference for reliance on commercial sources. A cost analysis is not needed in

(No. A-76)

circumstances where the Government's economic interests would be protected, such as the existence of a competitive commercial market, unless the agency has some unique economic advantage which would enable it to supply the needed product or service at less than commercial cost. In determining whether a cost study should be undertaken, consideration should be given to the delay and expense involved in a study sufficiently detailed and comprehensive to provide valid results.

Cost studies, when conducted, should be made in accordance with the guidelines in Section 6 of Circular A-76, and must cover all identifiable costs of both commercial and Government performance. Instructions for the determination of costs incurred by Government activities in providing products and services are set forth in paragraph 6c of the Circular. In computing the cost of civilian personnel services for a Government activity, the actual cost to the Government for employee benefits, such as retirement and insurance programs, must be included. Guidance in calculating these cost elements has been provided by the U.S. Civil Service Commission, which has determined current percentage factors for Government contributions to employee insurance programs and the full cost to the Government of the Civil Service Retirement System.

#### 4. Cost Factors.

a. For the convenience of Federal agencies making cost studies, the following percentages of base pay will be used in computing the costs of civilian personnel services:

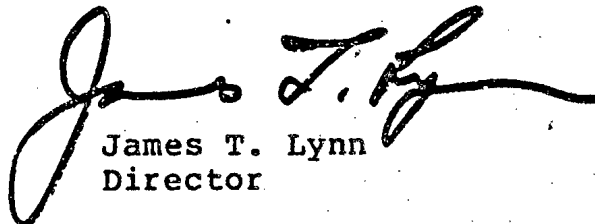
Retirement	24.7%
Health Insurance	3.5%
Life Insurance	.5%

b. Cost comparisons made under the provisions of Circular A-76 should be sufficiently complete and documented to permit ready audit by qualified financial personnel. Copies will be made available to interested persons, on a cost reimbursable basis, when requested under the provisions of the Freedom of Information Act.

5. Effective Date. This Transmittal Memorandum is effective immediately.

(No. A-76)

6. Inquiries. Inquiries or requests for assistance should be directed to the Office of Federal Procurement Policy, telephone 395-3327.

  
James T. Lynn  
Director

OMB Circular No. A-76, Trans. Memo #2

18 October 1976

Distribution made as follows:

- 1 copy - ADP Control Officer, DDS&T
- 1 copy - ADP Control Officer, DDO
- 1 copy - ADP Control Officer, DDI
- 1 copy - ADP Control Officer, DCI
- 1 copy - Chief, Mgmt & Assess Staff/DDA
- 1 copy - Office of Logistics
- 1 copy - Office of Data Processing

(No. A-76)